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Message Text

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ACTION ARA-10

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1. SUMMARY GOV ANNOUNCED APR 28 SERIES OF ECONOMIC MEASURES WHICH IT CLAIMS IS DESIGNED TO REDUCE INFLATION AND STIMULATE PRODUCTION. AFTER LONG, CONTENTIOUS DEBATE WITHIN CABINET, PRESIDENT DECIDED TO IMPOSE MEASURES TO AFFECT PRICES, CHANGE CREDIT TERMS ESPECIALLY AFFECTING HOUSING FINANCING, AND TO REDUCE LIQUIDITY BY CHANGING FINANCIAL INSTITUTIONS RESERVE REQUIREMENTS, INTEREST RATE LEVELS AND OTHER REGULATIONS AFFECTING THE FINANCIAL SECTOR. REACTION TO THE GOVT'S MEASURES THUS FAR HAVE BEEN GENERALLY FAVORABLE WITH THE EXCEPTION OF LABOR (SEPTEL) AND THE HOUSING FINANCING BUSINESS. END SUMMARY.

2. FOR SOME TIME THE PRESIDENT'S DOMESTIC ECONOMIC ADVISORS HAVE ARGUED THAT PRICE CONTROLS HAVE BEEN STRANGLING PRODUCTION OF MANY BASIC FOOD ITEMS AND RAW MATERIALS NEEDED FOR PRODUCTION, AND THAT THE ONLY SOLUTION WOULD BE TO ALLOW PRICES TO RISE TO THEIR MARKET LEVELS. ON THE OTHER HAND THE LEADERS FROM THE AD PARTY HAVE ARGUED THAT IT WOULD BE POLITICAL SUICIDE TO ALLOW PRICES TO RISE. AFTER CONSIDERABLE DEBATE AT THE CABINET LEVEL PRESIDENT PEREZ WAS PURSUADED TO IMPOSE A SERIES OF MEASURES AFFECTING PRICES, CREDIT AND LIQUIDITY.

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3. THE CHANGE IN PRICE POLICY WAS NOT NEARLY AS DRAMATIC AS

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HAD BEEN ANTICIPATED AND CONSISTED OF KEEPING MOST PRICES FROZEN AT THE CONSUMER LEVEL BU ALLOWING THEM TO RISE AT THE PRODUCER LEVEL. AT THE CONSUMER LEVEL INCREASES ARE LIMITED TO EGGS, CHICKENS, CEMENT AND REGULATED AUTOMOBILES. PRICES WILL CONTINUE TO BE FROZEN FOR BREAD, PASTA, DOMESTIC SUGAR, PASTURIZED AND CONDENSED MILK, TOMATO PRODUCTS, JUICES, PRESERVED FISH, CHOCOLATE, CARBONATED DRINKS, JAMS AND ICE CREAM. WHILE THE SUBSIDY ON WHEAT HAS BEEN ELIMINIATED, FLOUR MAY BE IMPORTED DUTY FREE. AT THE PRODUCER LEVEL PRICES HAVE BEEN INCREASED ON CORN, SORGHUM, SOY BEANS, BLACK BEANS,SESAME, PEANUTS AND COCONUTS. MINIMUM PRICES HAVE BEEN SET ON GARLIC AND ORDINARY BEANS. THE IMPORT DUTY ON JEEPS IS REDUCED TO 50 PERCENT; TRUCKS TO 60 PERCENT AND PASSENGER CARS 120 PERCENT (FROM 350).

4. FEDECAMARAS(FEDERATION OF CHAMBERS OD COMMERCE) WHICH HAS BEEN LONG PUSHING FOR INCREASE IN PRICES PRAISED GOVT MEASURES WHICH IT SAID SHOULD NOT INCREASE PRICES AT CONSUMER LEVEL, BUT RATHER ONLY AT THE PRODUCER LEVEL. IT NOTED THAT GOVT SUBSIDIES WOULD COMPENSATE FOR MOST PRICE INCREASES IN ANY CASE. IF PRICES WERE NOT INCREASED, IT CLAIMED THAT SEVERE SHORTAGES OF FOODSTUFFS AND BASIC RAW MATERIALS WOULD DEVELOP WITH THE CONSEQUENCES DIFFICULT TO PREDICT. ON THE OTHER HAND THE CTV(VENEZUELA LABOR CONFEDERATION) CONTENDS THAT THE GOV BROKE AN AGREEMENT WITH IT DATING BACK TO AGU 27, 1974 NOT TO INCREASE PRICES.

5. THE OBJECTIVES OF THE FINANCIAL MEASURES ACCORDING TO THE PRESIDENT OF THE CENTRL BANK, DR. BENITO RAUL LOSADA ARE TO MODERATE THE GROWTH OF LIQUIDITY; STIMULATE SAVING; CHANNEL FINANCIAL RESOURCES TOWARD ACTIVITIES OF HIGH PRIORITY; DECREASE THE USE OF CREDIT FOR NON-ESSENTIAL BUSINESS; BRAKE SPECULATIVE ACTIVITY, PARTICULARLY THAT CONNECTED WITH FINAN-CING OF HOUSING; AND CHANNEL INVESTMENT TOWARD PRODUCTIVE ENDS AND AWAY FROM NON-ESSENTIAL GOODS AND SERVICES.THESE MEASURES INCLUDE: 1) INCREASING THE RESERVE REQUIREMENTS OF THE COMMERCIAL BANKS AND CREDIT INSTITUTIONS WITH THE CENTRAL BANK;(BY 25 PERCENT ON DEPOSITS PLACED BY MUNICIPALITIES, AUTONOMOUS INSTITUTES, OTHER PUBLIC INSTITUTIONS OR GOVT ENTERPRISES/ REQUIRING A RESERVE DEPOSIT EQUIVALENT TO LIMITED OFFICIAL USE

20 PERCENT OF THE TOTAL AMOUNT OF REFINANCING OF LETTERS OF CREDIT, MAINTAINING RESERVES EQUIVALENT TO 50 PERCENT OF THE CREDIT COCUMENTS HAVING TERMS LONGER THAN 180 DAYS;)2) INCREASING INTEREST RATES BY ONE PERCENT PAID BY FINANCIAL INSTITUTIONS ON DEPOSITS (FROM 4 TO 5 PERCENT FOR BANKS) 3) REQUIRING THAT 6 PERCENT INTEREST BE PAID ON WORKERS' TRUST FUNDS; 4) REQUIRING MORTGAGE BANKS AND FINANCIAL COMPANIES TO PLACE 20 PERCENT OF THEIR LOANS IN LOW INCOME HOUSING;

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5) REDUCING TIME PERIOD ON CREDIT SALES OF GOODS AND SERVICES PLANE FARES AND REFINANCING LETTERS OF CREDIT6) LIMITING PROFIT ON COMMERCIAL BANK TRANSACTIONS OF FOREIGN EXCHANGE OBTAINED FROM THE CENTRAL BANK7) LIMITING BY VALUE PER AREA THE VARIOUS TYPES OF REAL ESTATE WHICH MAY BE FINANCED BY MORTGAGE BANKS AND FINANCE COMPANIES 8) LIMITING THE TIME PERIOD ON MORTGAGES TO 15 OR 10 YEARS OR LESS DEPENDING ON VALUE 9) ELIMINATING THE FINANCING OF UNIMPOVED LAND OR OF CONSTRUCTION ON LAND WHICH HAS NOT BEE PAID FOR.

6) COMMENT- THE OVERALL ECONOMIC EFFECT OF THE MEASURES ARE DIFFICULT TO JUDGE BECAUSE THEY TEND TO BE INCOMPLETE OR INSCONSISTENT. THERE IS NO DOUBT THAT THE MEASURES AFFECTING THE BANKS AND FINANCIAL INSTITUTIONS WILL DRAW OFF SOME OF THE LIQUIDITY. IT IS ESTIMATED BY THE CENTRAL BANK THAT THE RESERVE REQUIREMENTS WILL REDUCE LIQUIDITY BY OVER BS 1 BILLION. IT IS DOUBTFUL HOWEVER IF THE INCREASE OF ONE PERCENT IN THE INTEREST RATES PAID ON DEPOSITS WILL CAUSE MUCH INCREASE IN SAVINGS. THE CREDIT LIMITATIONS ON HOUSING WILL ADVERSELY AFFECT HIGH AND MIDDLE INCOME HOUSING CONSTRUCTION, BUT IT IS PROBLEMATIC WHETHER IT WILL STIMULATE FINANCING OF LOW INCOME HOUSING. WHILE THE PRICE MEASURES WILL RESULT IN SOME INCREASE IN THE COST OF LIVING, IT IS NOT AT ALL CERTAIN THAT THEY WILL INDUCE GREATER DOMESTIC PRODUCTION. THE GOVT WILL SAVE CONSIDERABLE MONEY IN ELIMINIATING THE WHEAT IMPORT SUBSIDY BUT THIS AMOUNT WILL BE MORE THAN OFFSET BY INTERNAL SUBSIDIES OF OTHERPRODUCTS.

7. THE GENERALLY FAVORABLE REACTION TO THE MEASURES WAS PROBABLY MORE A REFELCTION OF THE SENSE OF RELIEF THAT THE GOVT DID NOT TAKE MORE DRASTIC MEASURES RATHER THAN POSITIVE APPROVAL OF THE MEASURES IT DID TAKE. UNSPOKEN THUS FAR IS THE GREATER RELIEF THAT THE GOVT CHOSE THIS
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COURSE RATHER THAN THEOVERHAUL OF THE TAX SYSTEM, WHICH THE GOVT HAD BEEN PROMISING AND REALLY NEEDS, BUT WHICH APPARENTLY HAS BEEN INDEFNITELY POSTPONED, PROBABLY BASED ON POLITICAL CONSIDERATIONS.
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